

A STUDY OF KANSAS SCHOOL
AUDITING PRACTICES 1963-64

by

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A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

College of Education

KANSAS STATE UNIVERSITY
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INTRODUCTION

Public expenditures of funds have mounted to an all time high during the past decade. Governmental activities demand a greater proportion of the dollar than ever before. Although public education costs have also mounted to an all time high, the increase has not been so great when the value of the dollar and increased enrollment and services are considered. Nevertheless, the cost of public education is high enough to attract the attention of the taxpayers.

Since support of public education is primarily through local and state taxes, the local school administrator must do everything possible to show the taxpayer that the funds intended for school use are receiving all the safeguards and protection possible. One of the ways to insure the safety and protection of public funds is by using a good audit procedure.

Auditing is the verification of the records kept in the accounting system of the school. Although the value of the audit has long been recognized, there does not seem to be any uniformity of practice among school districts within most states or among states.¹

Mandatory audit legislation, in some form is used in forty-six states.² As of 1963, Nebraska and Wyoming made no mention of the general

¹Paul R. Mort, Walter, C. Reusser, and John W. Polley, Public School Finance, p. 484.

²Hendrick C. de Bruin, "A Closer Look at School District Audits," American School and University, 36:47, October, 1963.

school district audit in applicable statutory provisions. Kansas has statutory provisions that may be classified as permissive rather than mandatory in districts other than those in first and second class cities.¹

In a recent year, \$154,851,771 were expended by Kansas public schools.² It was decided that a study to determine the extent the audit was being used in Kansas schools to protect this sum would be of value.

STATEMENT OF THE PROBLEM

The purposes of this study were: (1) to discover the extent audits were being used in the schools of Kansas at the end of the 1963-64 school year, (2) to determine the frequency of the audit as determined by written school policy, (3) to discover who makes the audits, and (4) to determine the utilization of the audit report by the school district.

REVIEW OF LITERATURE

School districts spent more money in 1964-65 to educate a single child than ever before. The median school district in the United States raised its expenditures by more than 21 dollars during the last year.³

¹J. E. Needham (comp.), Kansas School Laws: 1957, Section 263 (G.S. 75-1122) p. 101 and Section 258 (G.S. 75-1117) p. 99, 1958.

²State Department of Public Instruction, State of Kansas Statistical Annual Reports for 1959-60, County Superintendents Reports, p. 4., 1960.

³The National Cost of Education Index 1964-65, School Management, 9:106, January, 1965.

In 1955 the White House Conference on Education estimated that dollars spent on education would double in the following decade.¹

Most people concerned with finance in the public schools agree that a good audit system is essential in providing protection for public funds, for giving the general public a statement of the financial conditions of the districts, and to protect the people who handle the funds of the districts.

The postaudit is a verification of accounts, usually occurring at the end of the fiscal period. It may be carried on by state agencies or by independent auditing agencies. The postaudit can be made annually, biennially, or at other periodic times as may be required by law, or in the absence of legal requirement, by policy of the board of education. In some states the board of education may select auditing agencies to make the examination of their accounts. Many small school districts still follow the practice of selecting a committee of citizens at the annual meeting to audit the accounts. Such examinations do not meet any of the requirements of a technical audit.² Knezevich and Fowlkes state:

For every fund classification in the school district to be examined in the postaudit there must be a study of its revenues or receipts, expenditures, assets, and liabilities. A very general list of activities performed in a postaudit would include:

1. Verification of opening balances.

¹Committee for the White House Conference, A Report to the President, Government Printing Office, pp. 6-7. April, 1956.

²Paul R. Mort, Walter C. Reusser, and John W. Polley, Public School Finance, p. 487.

2. Verification, analysis, and examination of sources of income and their proper posting.
3. Verification of disbursements.
4. Reconciliation of budget items with receipts and disbursements.
5. Examination of legal authorization for all expenditures.
6. Examination and analysis of budgeting procedures employed.
7. Verification of all accounts recorded.
8. Reconciliation of all invoices paid with expenditures accounted for.
9. Examination of board of education minutes, insurance policies, contracts, and deeds (titles) to real estate.
10. Verification of assets and liabilities, bank balances, and so on.
11. Analysis and examination of bonded indebtedness.
12. Examination of capital assets, inventories, surplus accounts, vouchers payable, and so on.
13. Reporting of errors of method and method of recording uncovered in the course of the auditing.
14. A report on the accounting system employed, with recommendations for desirable and necessary changes if any.¹

School administrators must be extremely careful that the auditor does not enter into the realm of policy making for the school. It is not the auditor's business to look into curriculum matters, educational policy, and attendance records of the school. The auditor may be a specialist in his own field but the administrator is the specialist in the educational field.

A report of the audit is a must. Norman recommends that, "the independent auditor's report be filed with school officials within 30 days after completion of work."² It is the purpose of the audit report to convey to the public information that will enable them to judge the

¹Stephen J. Knesevich and John Guy Fowlkes, Business Management of Local School Systems, pp. 147-148.

²Loyal V. Norman, "Scope, Conduct, and Report of the School Audit," American School Board Journal, 127:45, October, 1953.

work of the school officials for the previous year and to know what to expect in the following year. It is the administrator's duty to see that the report is made public by every possible means at his disposal.

DEFINITION OF TERMS

As a guide to the reader and for further clarification the following definition of "postaudit" was used in this report.

The term "postaudit" was used to denote an audit that is performed after the fiscal transactions have been completed during an accounting period or fiscal year. The "postaudit" should be performed by an individual or firm from without the system.

METHOD OF PROCEDURE

The initial step in making this report was to make a study of the literature available on school audits. After the review of literature, it was decided that a short answer questionnaire would be administered to superintendents of selected school districts in Kansas. The questions were related to the 1963-64 school year.

Administrators of five types of school districts were questioned. The districts were second class city districts, rural high school districts, common school districts(1-8), common school districts(1-12), and county community high school districts.

Questionnaires were sent to 195 administrators in the five types of districts named. These administrators were selected on a stratified random sampling basis and represented approximately 22 per cent of the

total number of districts of the five types studied.

Questionnaires were sent to the administrators of 24 per cent of the second class city districts, 19 per cent of the rural high school districts, 19 per cent of the common school districts(1-8), 23 per cent of the common school districts(1-12), and to all the administrators of county community high school districts.

THE STUDY

The results reported in this study were based on data collected from questionnaires returned by administrators of school districts which made up the study sample. Table I shows that the 77 per cent return from the total sample came from 151 school districts. The table also shows the per cent of return by type of district included in the sample.

TABLE I
NUMBER OF SCHOOLS REPORTING

Type of districts	Number sent	Number returned	Per cent* returned
Second class city	20	19	95
Rural high school	53	34	62
Common school(1-8)	70	57	81
Common school(1-12)	32	24	75
County community high	20	17	85
Totals	195	151	77

*Per cents were rounded to the nearest whole number

Number of districts reporting audits

The results of the study indicated that 128 of the 149 administrators reporting had had a postaudit performed in their district at the end of the 1963-64 school year. Table II shows that ninety-five per cent of the second class city district administrators reported use of the audit. This high was followed by county community high school districts with 94 per cent, common school districts(1-12) with 88 per cent, and by common school districts(1-8) with 87 per cent. The lowest per cent of audit use was reported by administrators in the rural high school districts. Seventy-four per cent audit use was reported.

TABLE II
DISTRICTS THAT AUDITED 1963-64

Type of district	Responses	Number audited	Per cent* audited
Second class city	19	18	95
Rural high school	34	25	74
Common school(1-8)	55	48	87
Common school(1-12)	24	21	88
County community high	17	16	94
Totals	149	128	Average 86

*Per cents were rounded to the nearest whole number

Table III shows that an activity fund audit was made concurrently with the general postaudit in 95 per cent of the second class city districts and by 94 per cent of the county community high school districts.

Administrators of common school districts (1-12) reported 80 per cent of their districts had concurrent postaudits of activity funds and rural high school administrators reported 53 per cent. Common school district (1-8) administrators reported that only 15 per cent of their districts had had a concurrent postaudit of activity funds.

TABLE III
DISTRICTS REPORTING CONCURRENT
ACTIVITY FUND AUDITS

Type of district	Number of Responses	yes	no	Per cent ^a yes
Second class city	19	18	1	95
Rural high school	34	18	16	53
Common school(1-8)	26	4	22	15
Common school(1-12)	24	19	5	80
County community high	17	16	1	94

^aPer cents were rounded to the nearest whole number

Responsibility for performing the audit

The responsibility for performing the audit was given to certified public accountants in 51 of the 127 cases which reported as shown in Table IV. This was 40 per cent of all the cases reported in the study. Citizen committees performed 22 per cent of the audits, local banks 13 per cent, and licensed municipal accountants performed 11 per cent of the audits. Included among others who performed audits were a preacher, local business men, school employees.

It was further indicated by information collected for this study that certified public accountants performed the largest per cent of audits in the second class city districts, common school districts(1-12), and the county community high school districts. Rural high school districts and common school districts(1-8) generally contracted audit service from sources other than certified public accountants and licensed municipal accountants.

TABLE IV
RESPONSIBILITY FOR PERFORMING THE AUDIT

Type of district	Number of responses	a	b	c	d	e	f
Second class city	18	16	1			1	
Rural high school	24	4	3	7	5	4	1
Common school(1-8)	48	10	5	16	10	6	1
Common school(1-12)	21	10	4	5		2	
Community high	16	11	1		2	2	

a - Number of audits performed by certified public accountants.

b - Number of audits made by licensed municipal accountants.

c - Number of audits made by citizen committees.

d - Number of audits made by local banks.

e - Number of audits made by others.

f - Source of audit not given.

Among the eighteen administrators who indicated reasons for not having an annual audit, ten administrators stated that it was not traditional to audit. Of the remaining districts that had not audited, seven administrators indicated they did not audit every year and one administrator indicated that funds were not available for an audit. No

administrator indicated that the board of education would not give approval for an audit.

Audit required as part of written board policy

As pointed out in Table V, page 10 of the study, 77 of the 149 respondents indicated that a written board policy was used as a guide regarding the frequency of the audit. Of this number, 57 had policies which stated that an audit would be made on a yearly basis. A two-year frequency was indicated by one response and two district administrators indicated that their policies were determined by state law.

TABLE V
POLICY ON FREQUENCY OF AUDIT

Type of district	Responses	a	b	c	d	e	f
Second class city	19	12		1		6	
Rural high school	34	10		1		2	21
Common school(1-8)	55	19				5	31
Common school(1-12)	24	11				4	9
County community high	17	5	1		1	5	5
Totals	149	57	1	2	1	16	72

a - Indicates frequency prescribed is yearly.

b - Indicates frequency prescribed in once each two years.

c - Frequency as prescribed by law.

d - Indicates frequency is dependent on board action.

e - No frequency indicated.

f - Indicates districts that have no board policy.

Audit requested by administrators on application for position

The study results indicated that of the 129 respondents, 47 had requested an audit of the districts funds on application for the position they occupied during the 1963-64 school year. It was further indicated in Table VI that 37 respondents did not request an audit. The reason stated by 45 of the 82 administrators who had not requested an audit was that an audit had been made by the district prior to their acceptance of the position. It was significant to the author that 46 of the 47 administrators that had requested an audit did get the request granted.

TABLE VI
AUDIT REQUESTED BY ADMINISTRATORS

Type of district	Responses	Audit requested	Not granted	No request	Previous audit
Second class city	9	6		3	
Rural high school	30	9		12	9
Common school(1-8)	49	12		15	22
Common school(1-12)	24	9	1*	5	10
County community high	17	11		2	4

*This number was not included in the total for this row

Table VI shows that of the 129 administrators who responded, 47 or 36 per cent requested an audit prior to acceptance of the new position. An audit was not requested by 37 or 29 per cent of the respondents and 45 or 35 per cent had accepted a previous audit.

Auditor's reports

The study results indicated that of the 106 respondents to the question concerning transmission of the audit report to their respective school boards, 105 administrators had done so. One administrator in a common school district(1-8) indicated that the report was not transmitted.

Publicity, other than that given to the board, was given to the auditor's report by 54 of the 117 administrators responding to the applicable question. Of this number, 40 respondents indicated the type of publicity given.

As shown in Table VII, 44 per cent of the second class city district administrators gave additional publicity to the audit report. Forty-five per cent of the administrators of the rural high school districts gave additional publicity to the audit report as did 55 per cent of those in common school districts(1-8). Fifty-five per cent of the common school district(1-12) administrators gave additional publicity to the audit report as did 13 per cent of the county community high school district administrators. Forty-seven per cent of all districts studied gave additional publicity to the auditor's report.

The type and amount of publicity given to the report was varied. The most common practice was indicated by administrators of common school districts(1-8), common school districts(1-12), and rural high school districts and was indicated to be the publicity given the report during the annual meeting.

Administrators indicated that the means of obtaining publicity for the auditor's report other than through the annual district meeting were through local newspaper articles, radio public service programs, and reports to the county clerk.

TABLE VII
PUBLICITY GIVEN AUDIT REPORT

Type of district	Responses	Publicity given	Per cent*
Second class city	16	7	44
Rural high school	22	10	45
Common school(1-8)	44	24	55
Common school(1-12)	20	11	13
County community high	15	2	13

*Per cents were rounded to the nearest whole number.

Budgetary practices

Table VIII points out that in all five types of districts, less than one-half of the respondents indicated that the audit report helped in preparation of the budget. The study further indicated that in 53 of the 94 districts responding to the appropriate question, budget preparations had not been helped by the audit report. This number represented 56 per cent of the returns.

Both types of common school district administrators indicated that 55 per cent of them had received help by the auditor's report in

the preparation of the budget. Only thirteen per cent of the county community high school district respondents indicated that they had been helped by the audit report in budget preparations.

TABLE VIII
CHANGES IN BUDGETARY PRACTICES

Type of district	Improvement because of audit	
	yes	no
Second class city	0	2
Rural high school	7	11
Common school(1-8)	19	22
Common school(1-12)	9	10
County community high	6	8

Beneficial results of the postaudit

The study indicated that the most beneficial outcome of the post-audit in all five types of districts studied was that the audit helped to assure the public of the honesty of the business practices being used. Many respondents indicated that efficiency in business practices was also a direct result of having a postaudit performed.

SUMMARY

The purposes of this study were to determine to what extent post-audits were being used in Kansas schools at the end of the 1963-64 school

year and to identify, if possible, some of the results of the audit as indicated by the administrators of districts selected for the study.

It was found that 86 per cent of the districts studied had had a postaudit of their accounts at the end of the 1963-64 school year.

It was found that over one-half, or 51 per cent, of the audits performed were made by certified public accountants or by licensed municipal accountants. The remaining audits were performed by a variety of individuals and/or agencies.

It was found that slightly more than one-half of all districts studied did have a written policy regarding the frequency of postaudits. The most common frequency indicated was once each year.

It was found that 46 per cent of the 47 administrators who had requested an audit previous to acceptance of the position they held during the 1963-64 school year did have their request granted by the board.

It was found that the auditor's report was transmitted to the school board by the administrator in 105 of the 106 districts sampled. Less than one-half of the administrators indicated that other publicity was given to the report.

Generally, results of the study showed that all five types of districts had a high rate of postaudit performance on the general accounts of the district. The rate of postaudits performed on activity fund accounts was not as high in rural high school districts, common school districts(1-8), and in common school districts(1-12). The results

of the study showed that common school districts(1-8) rarely required postaudits of their activity fund accounts.

The awareness of the importance of the postaudit on the part of the administrators in all five types of districts was indicated by the large number of administrators who had requested postaudits when applying for new positions in districts that had not previously audited their accounts. One common school district(1-12) did not grant the request of the administrator for an audit when applying for a new position in that district.

The audit report was transmitted to the board of education by most respondents. One administrator in a common school district(1-8) indicated that the report was not transmitted to the board. About one-half of the second class city districts, rural high school districts, and common school districts(1-8), gave additional publicity to the auditor's report. The study indicated that common school districts(1-12) and county community high school districts rarely gave additional publicity to the report.

Administrators responding indicated that in over one-half the districts budgetary practices had not been improved as a result of the postaudit. The most beneficial result of the postaudit indicated was that public awareness of the honesty in the business practices of the district had increased.

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APPENDIX

May 17, 1965

Dear Sir:

The enclosed questionnaire is part of a study, "Status Study of Auditing Practices in Kansas Schools, 1963-64", I am conducting for a Master's Report at Kansas State University. This study has been developed with the approval and cooperation of my advisor, Dr. O. Kenneth O'Fallon.

By answering the enclosed questionnaire promptly, you will be doing me a valuable service and contributing, perhaps, information which will be beneficial to all concerned with auditing practices in Kansas schools.

Please cooperate in this study by completing the attached questionnaire and returning it in the enclosed envelope by June 4, 1965. In return for your consideration the results of this study will be available to you in September, 1965 by sending a card to me.

Although I have requested the identity of you, your position, and your school, no person will be identified in the results of this study.

Sincerely yours,

Donald E. Hedges
Director of the Study

DEH:sf

Enclosure: Questionnaire

QUESTIONNAIRE CONCERNING AUDITING PRACTICES IN
KANSAS SCHOOLS (1963-64)

When you have completed the questionnaire, please return it in the enclosed envelope addressed to: Donald E. Hedges
208 Downing Road
Scott City, Kansas
67871

Directions: The questions pertain to the 1963-64 school year. Please do not consider an audit by a public utilities accountant as an audit for the purposes of answering the questions below. Please indicate with a cross (X) your answers to the questions.

1. Did your school have a post audit of all school accounts in 1963-64?

Yes
 No

2. Was an audit of the Activity funds made at the same time?

Yes
 No

3. Please indicate below by whom the audit was made.

Licensed municipal accountant
 Certified Public Accountant
 Other (Please Specify) _____

4. If no audit was made, please indicate reason.

Funds not available
 Not traditional to audit
 Could not get board approval
 Audits not made every year
 Other (Please Specify) _____

5. Does your Board of Education have a written policy as to how often an audit shall be made?

Yes (Please Specify) _____
 No

6. Did you, as highest administrative official, request an audit of all accounts when being considered for your position?

Yes

No

An audit had been made the previous year.

7. If you answered question #6 yes, was this request granted?

Yes

No

8. Was the auditor's report transmitted to the school board?

Yes

No

9. Was any other publicity given the auditor's report?

Yes (Please Specify) _____

No

10. Do you feel that your budgetary practices have improved because of the annual post audit?

Yes (Please specify on reverse side)

No

11. What do you feel is the most beneficial outcome of your annual post audit?

Increased efficiency in business practices

Improved budgetary practices

Helped to assure public of honesty of business practices

Helped administration install newer business practices

Other (Please Specify)

NAME _____

SCHOOL _____

POSITION _____

A STUDY OF KANSAS SCHOOL
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AN ABSTRACT OF A MASTER'S REPORT

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Manhattan, Kansas

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The purposes of this study were to determine to what extent post-audits were being used in Kansas schools at the end of the 1963-64 school year and to identify, if possible, some of the results of the audit as indicated by the districts selected for the study.

For the study, 195 schools were selected from a population of 899 schools of five types of districts. The types of districts included in the study were, second class city districts, rural high school districts, common school districts(1-8), common school districts(1-12), and county community high school districts.

Replies were received from 151 or 77 per cent of the total number sent.

It was found that 86 per cent of the districts in the study had had a postaudit of their accounts at the end of the 1963-64 school year.

It was found that over one-half or 51 per cent of the audits performed were made by certified public accountants or by licensed municipal accountants. The remaining audits were performed by a variety of individuals and/or agencies.

It was found that slightly more than one-half of all districts studied do have a written policy regarding the frequency of postaudit. The most common frequency indicated was once a year.

It was found that forty-six of the forty-seven administrators who had requested an audit prior to acceptance of the position they held during the 1963-64 school year did have their request granted by the board of education.

It was found that the auditor's report was transmitted to the school board by the administrator in a large majority of the districts studied. Less than one-half of the respondents indicated that other publicity was given the report.

More than one-half of the administrators responding indicated that their budgetary preparations had not been improved as a result of the postaudit.

Generally, results of the study show that all five types of districts studied had a high rate of postaudit performance at the end of the 1963-64 school year. The extent of the postaudit for activity fund accounts was substantially lower in common school districts(1-8) than in the other four types of districts studied. Only 15 per cent of the common school districts(1-8) had audited this fund.

Budgetary procedures in many districts had not improved as a result of the postaudit. The beneficial result of the postsudit most often indicated by administrators was that auditing helped to assure the public of the honesty of business practices being used in the school.